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Control: 8259
Rec'd: May 13, 1958 2:41 p.m.

Action: AF
Info: RMR, SS, G, SP, C, W, L, INR, EUR, WMSC, E, ICA, OSD

FROM: Tripoli

TO: Secretary of State

NO: 897, May 13, 5 p.m. (SECTION 1 OF 2)

REVIEWED BY G.M. Raji DATE May 6, 1982

PRIORITY

SENT DEPARTMENT 897 REPEATED INFORMATION LONDON 127, BENGHAZI UNNUMBERED

JOINT EMBASSY/USOM MESSAGE

Reference A: London's 59, sent Department 6477.

Reference B: ICATO 532

1. Shaglouf (presumably on instructions PM) following return from London informed Gordon May 10 Benghazi (A) GOL requires entire $5.5 million budgetary support (B) they wish continue LPDSA and have included its requirements their computations shortfall (C) firm commitment needed to enable PM present budget Parliament in approximately week.

2. In long discussion Gordon expressed desire joint review of needs, reaffirmed availability $5.5 million but suggested portion be used meet additional GOL requests development assistance. He raised objections financing development projects through continuation LPDSA via budgetary support fund pointed out necessity identifying purposes for which US funds to be used.

3. On May 11 Shaglouf stated he had reported conversation to PM who (A) insisted his understanding funds to be made available "without strings" and any budget review or surveillance implementation politically difficult and (B) stated desire discuss subject urgently with Ambassador.

4. Ambassador's presentation to PM April 25 was general, did not include discussion procedural detail, obligation techniques

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techniques, etcetera, but did establish pursuant instructions DEPTEL 825 commitment providing up to $5.5 million for economic development or budget support as GOL found necessary after settlement UK aid level. It appears UK made maximum use this commitment London talks.

5. In view ICA instructions and efforts move toward compliance standard procedures, OM has substantial reservations unrestricted turnover budgetary support funds and suggests following minimum procedure: (A) obligate $2.5 million by exchange of notes treating US dollars as if commodity (see paragraph XI D TOICA A-1042) deposit L/C proceeds special account Minister Finance, (B) release these funds as well as proceeds $3 million commodity program accordance normal procedure on joint signature (C) purposes for which budget support funds utilized to be identified and agreed in discussion subsequent to obligation $2.5 million (D) re LPDSA we should hold to position set forth reference B.

6. Alternative to above would be US agreement to displacement with FY '58 DS dollars of FY '59 special funds which in prior years devoted development projects through Larc. Advantages would be (A) MSP dollars could be devoted identifiable development projects rather than budget support; (B) GOL would be assured level of income for ordinary budget use with no conditions attached. Disadvantages would be (A) amount subject to displacement could not exceed $2 million in FY '59 since balance already committed; (B) amount subject displacement could not exceed $4 million in any year and would drop to $1 million after three years; (C) special funds not usually available until fall of year; (D) proposal this alternative by US would lend additional force to expected Libyan request for revision 1954 Economic Aid Agreement to increase available amount of uncontrolled special funds for budgetary support (see EMBTEL 886). Disadvantages appear sufficient preclude our suggesting this procedure to Prime Minister.

JONES

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Control: 8226
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2:19 p.m.

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FROM: Tripoli

TO: Secretary of State

NO: 897, May 13, 5 p.m. (SECTION TWO OF TWO)

PRIORITY

SENT DEPARTMENT 897; REPEATED INFORMATION LONDON 127, BENGHAZI UNNUMBERED.

7. Believe procedures outlined paragraph 5 reasonable basis discussion. Essential we move promptly obligate 2.5 million dollars, to fulfill commitment re immediate availability and enable PM present budget Parliament early next week showing anticipated resources from both UK and US aid. Would hope thereafter procedural details concerning management special account could be kept at working level. However, Prime Minister's position apparently firm along lines reported reference A and anticipate substantial difficulty in negotiation. Even if general procedure accepted, we cannot expect exercise significant control over releases special account without creating continuing source irritation and draining off critical value for which aid granted. Also expect objection 10% reserve for United States uses on grounds this would constitute reduction aid available for budget support. In view these anticipated difficulties request State-ICA indication maximum flexibility permissible meet situation, including waiver 10% reserve.

8. Believe it imperative we not derogate impact increase in United Kingdom offer and that we keep in mind primary objective securing maximum POL advantage for US/UK position Libya. This objective has remained clear in top level US/UK discussions past several months and must not now be lost.

9. Prime Minister probably wish further discussions next few days. Reply urgently.

JONES

AAL:GEV/1

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